

**Item 1. Cover Page**

**Brochure of**  
**Pacific Grove Capital LP**  
**580 California Street, Suite 1925**  
**San Francisco, CA 94104**  
**Telephone: (415) 635-0160**  
**Facsimile: (415) 635-0161**  
**info@pacificgrovecap.com**

**March 16, 2015**

This brochure provides information about the qualifications and business practices of Pacific Grove Capital LP (“Pacific Grove”). If you have any questions about the contents of this brochure, please contact Richard Van Doren at (415) 635-0160 or info@pacificgrovecap.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about Pacific Grove also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2. Material Changes**

Not applicable.

**Item 3. Table of Contents**

	<b>Page</b>
<b>Item 1. Cover Page.....</b>	<b>1</b>
<b>Item 2. Material Changes .....</b>	<b>1</b>
<b>Item 3. Table of Contents .....</b>	<b>2</b>
<b>Item 4. Advisory Business .....</b>	<b>3</b>
<b>Item 5. Fees and Compensation.....</b>	<b>3</b>
<b>Item 6. Performance-Based Fees and Side-By-Side Management .....</b>	<b>4</b>
<b>Item 7. Types of Clients .....</b>	<b>4</b>
<b>Item 8. Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>4</b>
<b>Item 9. Disciplinary Information.....</b>	<b>9</b>
<b>Item 10. Other Financial Industry Activities and Affiliations.....</b>	<b>9</b>
<b>Item 11. Code of Ethics, Participation or Interest In Client Transactions and Personal Trading.....</b>	<b>9</b>
<b>Item 12. Brokerage Practices .....</b>	<b>11</b>
<b>Item 13. Review of Accounts .....</b>	<b>14</b>
<b>Item 14. Client Referrals and Other Compensation.....</b>	<b>14</b>
<b>Item 15. Custody .....</b>	<b>15</b>
<b>Item 16. Investment Discretion.....</b>	<b>15</b>
<b>Item 17. Voting Client Securities .....</b>	<b>15</b>
<b>Item 18. Financial Information.....</b>	<b>16</b>
<b>Item 19. Requirements for State-Registered Advisers .....</b>	<b>16</b>
<b>Privacy Policy .....</b>	<b>16</b>

#### **Item 4. Advisory Business**

Pacific Grove is a Delaware limited partnership formed in March 2014. Pacific Grove's founder and controlling owner is Robert James ("Jamie") Mendola, Jr.

Although Pacific Grove may manage additional client accounts in the future, currently it serves exclusively as the investment adviser to Pacific Grove Master Fund LP, a Cayman Islands exempted limited partnership (the "Master Fund"). Pacific Grove's affiliate, Pacific Grove Capital GP LLC, a Delaware limited liability company, is the general partner of the Master Fund and the U.S. Feeder (defined below).

The Master Fund is a "master fund" whose limited partners are Pacific Grove International Ltd. (the "Offshore Feeder") and Pacific Grove Partners LP (the "U.S. Feeder" and, together with the Master Fund and the Offshore Feeder, the "Funds"). The Offshore Feeder is available for investment by non-U.S. investors and U.S. tax-exempt investors that are "qualified purchasers" so that it can be excluded from the definition of an "investment company" under section 3(c)(7) of the Investment Company Act of 1940 ("ICA"). The U.S. Feeder is available for investment by taxable U.S. investors that are "qualified purchasers" so that it also can rely on ICA section 3(c)(7).

As of March 1, 2015, Pacific Grove's regulatory assets under management were approximately \$120,221,161.

Pacific Grove invests principally, but not solely, in equity and equity-related securities, and opportunistically in credit investments, that are traded in U.S. and non-U.S. markets on behalf of clients, but it is authorized to enter into any type of investment transaction that it deems appropriate under the terms of the client's partnership or other account agreement. Fund investors have no opportunity to select or evaluate any Fund investments or strategies. Pacific Grove selects all Fund investments and strategies.

#### **Item 5. Fees and Compensation**

Fees and Allocations. Pacific Grove's clients (the Funds) and each U.S. Feeder investor and Offshore Feeder U.S. investor are qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act of 1940, as amended. Therefore, information on how Pacific Grove is compensated for its advisory services and its fee schedule is not included here. Pacific Grove's compensation is negotiable and varies, but is set forth generally in each Fund's confidential offering circular or private offering memorandum.

Pacific Grove's affiliate, Pacific Grove Capital GP LLC, a Delaware limited liability company, serves as general partner of the Master Fund and the U.S. Feeder. As general partner, Pacific Grove Capital GP LLC deducts a management fee directly from the Master Fund, which it has assigned to Pacific Grove, and is allocated a performance allocation. Investors pay these management fees and performance allocations indirectly, through their investments in the Offshore Feeder and the U.S. Feeder.

If a Fund terminates or an investor withdraws or redeems, the investor (through the Master Fund) bears expenses, and the pro rata portion of the management fees and performance allocations

through the date of termination or withdrawal/redemption, except that if an investor withdraws or redeems from a Fund on a date other than the last day of a measurement period, there is no refund to that investor of any management fee that it previously paid for that period.

Pacific Grove may provide certain investors special fee and allocation arrangements that it does not provide to other investors. Pacific Grove may waive all or any portion of the management fees or performance allocations with respect to any investor.

Pacific Grove complies with Rule 205-3 under the Investment Advisers Act of 1940, if required. Performance allocations may create an incentive for Pacific Grove to make more risky and speculative investments than it would otherwise make.

Pacific Grove believes that its fees are competitive with fees charged by other investment advisers for comparable services. Comparable services may be available, however, from other sources for lower fees.

Withdrawal/Redemption Rights. A Fund investor may, on at least 65 days' advance notice to Pacific Grove Capital GP LLC and subject to certain restrictions, withdraw/redeem up to 25% of its related Master Fund capital account balance as of the end of any fiscal quarter that occurs on or after the date immediately preceding the first anniversary of such investor's admission to the Fund, except that if an investor makes withdrawals/redemptions in consecutive fiscal quarters:

- (a) The 1/4 limit will apply in the first fiscal quarter;
- (b) If the maximum 1/4 is withdrawn/redeemed in the first fiscal quarter, then the investor may withdraw/redeem up to 1/3 of its Master Fund capital account balance in the next fiscal quarter;
- (c) If the maximum 1/3 is withdrawn/redeemed in the second consecutive fiscal quarter, then the investor may withdraw/redeem up to 1/2 of its Master Fund capital account balance in the next fiscal quarter; and
- (d) If the maximum 1/2 is withdrawn/redeemed in the third consecutive fiscal quarter, then the investor may withdraw/redeem up to the balance of its remaining Master Fund capital account in the next fiscal quarter.

Thus, if an investor desires to withdraw/redeem all of its Master Fund capital account balance, it will take at least 4 consecutive fiscal quarters to do so. In each case, the investor must provide the minimum 65 day prior notice and, except as provided in the next two paragraphs, if the investor does not withdraw/redeem the maximum permissible amount in any fiscal quarter, then the 1/4 restriction again applies the next time a withdrawal/redemption occurs. If, however, the investor ever again makes withdrawals/redemptions in consecutive fiscal quarters, then the expanded limits in clauses (b) through (d) above will again apply, so long as the investor withdraws/redeems the maximum permitted amount in each consecutive fiscal quarter.

Subject to certain restrictions, an investor may withdraw/redeem (a) more than the portion of its Master Fund capital account balance described above, and (b) at the end of any fiscal quarter that occurs before the date immediately preceding the first anniversary of each investor's admission

to the Fund, subject to certain restrictions, but in any such case, the investor must pay the Fund or the Master Fund a withdrawal/redemption fee of 4% of the amount withdrawn/redeemed that either (1) exceeds the limits described in clauses (a) through (d) above, which amount will be deducted from the proceeds otherwise payable to the investor, or (2) is withdrawn/redeemed prior to the day preceding the first anniversary of that investor's admission to the Fund. This fee will not be charged in connection with withdrawals/redemptions relating to certain events that occur to Pacific Grove's principal, Jamie Mendola, on certain amendments to the Fund's constituent documents or following any expulsion.

Expenses. Each Fund is responsible for its own costs and expenses, including trading costs and expenses (such as brokerage commissions, expenses related to short sales, and clearing and settlement charges), ongoing legal, accounting and bookkeeping fees and expenses, and the fees and expenses charged by the Funds' administrator for its accounting, bookkeeping and other services. Pacific Grove generally bears its own overhead costs and expenses, other than as set forth in Item 12 or the Fund's offering documents. Securities brokerage firms and futures commission merchants ("FCMs") that execute Master Fund securities and commodities trades, however, may pay all or part of these costs and expenses, as discussed in Item 12 below.

#### **Item 6. Performance-Based Fees and Side-By-Side Management**

Pacific Grove currently does not manage client accounts that do not pay performance-based compensation.

#### **Item 7. Types of Clients**

Pacific Grove provides investment advice to investment funds. Investors in the U.S. Feeder and the Offshore Feeder are required to invest at least \$1,000,000. Pacific Grove may waive this minimum.

#### **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

##### Investment Strategy

Pacific Grove, on the Master Fund's behalf, invests in and trades securities, consisting principally, but not solely, of equity and equity-related securities and opportunistically in credit investments that are traded in U.S. and non-U.S. markets. Pacific Grove also may invest in preferred stocks, convertible securities, warrants, rights, options (including covered and uncovered puts and calls and over-the counter options), swaps, credit default swaps and other derivative instruments, private securities, non-U.S. currencies, futures, options on futures, other commodity interests and money market instruments. Pacific Grove also engages in short-selling, margin trading, hedging and other investment strategies.

Pacific Grove's investment objective is to maximize risk-adjusted returns over the long-term. Pacific Grove will primarily invest, on the Master Fund's behalf, in a concentrated portfolio of long/short equity securities and opportunistic credit investments. Pacific Grove will primarily focus on securities of small and mid-cap issuers.

The foregoing investment strategy represents Pacific Grove's current intentions, is general in nature and is not exhaustive. There are no limits on the types of securities or commodities in which Pacific Grove may take positions on behalf of its clients, the types of positions that it may take, the concentration of its investments or the amount of leverage that it may use. Pacific Grove may use any trading or investment techniques, whether or not contemplated by the expected investment strategy described above. In addition, there are limitations in describing any investment strategy due to its complexity, confidentiality and indefinite nature. Depending on conditions and trends in securities and commodities markets and the economy generally, Pacific Grove may pursue any objectives or use any techniques that it considers appropriate and in clients' interest.

### Risk Factors

Investing in securities and commodities involves risk of loss that investors should be prepared to bear. Below are brief summaries of some of the risks that investors should consider before investing in a Fund. Any or all of such risks could materially and adversely affect investment performance, the value of a Fund or any security or commodity held by that Fund, and could cause investors to lose substantial amounts of money. Potential investors should review the Fund's offering circular or private offering memorandum carefully and in its entirety, and consult with their professional advisers before deciding whether to invest. A potential investor should discuss with Pacific Grove's representatives any questions that such person may have before investing in a Fund.

#### *Risks Associated with the Master Fund's Investment Strategy*

- The Master Fund may not achieve its investment objectives. A strategy may not be successful and investors may lose some or all of their investments.
- Investor sentiment on the market, an industry or an individual stock, fixed income or other security is unpredictable and can adversely affect the Master Fund's investments.
- The Master Fund may hold stocks that disappoint earnings expectations and decline, and may short stocks that beat earnings expectations and rise.
- Pacific Grove may not be able to obtain complete or accurate information about an investment and may misinterpret the information that it does receive. Pacific Grove also may receive material, non-public information about an issuer that prevents it from trading securities of that issuer for the Master Fund when the Master Fund could make a profit or avoid losses.
- The Master Fund may take positions in securities of small, unseasoned companies that are less actively traded and more volatile than those of larger companies.
- Pacific Grove may engage in hedging, which may reduce profits, increase expenses and cause losses. Price movement in a hedging instrument and the security hedged do not always correlate, resulting in losses on both the hedged security and the hedging

instrument. Pacific Grove is not obligated to hedge the Master Fund's portfolio positions, and it frequently may not do so.

- The Master Fund sells securities short, resulting in a theoretically unlimited risk of loss if the prices of the securities sold short increase.
- Management and stockholders of an issuer may sue short sellers to deter short sales of the issuer's securities. Pacific Grove could be subject to such actions, even if they are baseless, and the Master Fund could incur substantial costs defending them.
- To make a short sale, the Master Fund must borrow the securities being sold short. It may be impossible to borrow securities at the most desirable time to make a short sale, particularly in illiquid securities markets.
- Special rules, which differ from jurisdiction to jurisdiction, apply to short sales. For example, temporary or permanent governmental orders may from time to time prevent the Master Fund from executing short sales of these securities at the most desirable time.
- If the prices of securities sold short increase, the Master Fund may need to provide additional funds or collateral to maintain the short positions. This could require the Master Fund to liquidate other investments to provide additional collateral. Such liquidations might not be at favorable prices.
- The Master Fund may use leverage by borrowing on margin, selling securities short and trading futures, other commodity interests and derivatives, which increases volatility and risk of loss. These instruments can be difficult to value. An incorrect valuation could result in losses.
- The Master Fund may sell covered and uncovered options on securities. The sale of uncovered options could result in unlimited losses.
- Counterparties such as brokers, dealers, FCMs, custodians and administrators with which Pacific Grove does business on behalf of the Master Fund may default on their obligations. For example, the Master Fund may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt.
- The Master Fund may invest in fixed income securities that are subject to interest rate risk, inflation rate risk, limited liquidity risk and other risks.
- The Master Fund may enter into repurchase agreements or reverse repurchase agreements. These instruments can have effects similar to margin trading and leveraging strategies.
- The Master Fund may invest in securities of non-U.S., private and government issuers. The risks of these investments include political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight.

- Changes in economic conditions can adversely affect investment performance. At times, economic conditions in the U.S. and elsewhere have deteriorated significantly, resulting in volatile securities markets and large investment losses. Government actions responding to these conditions could lead to inflation and other negative consequences to investors.
- The Master Fund may acquire a large position in an issuer's securities but it nevertheless is unlikely to have any control over the issuer's management. In addition, if the Master Fund holds a large position in an issuer's securities, its subsequent sale of all or any part of that position could depress the market for those securities.
- Pacific Grove generally focuses on companies with small or medium size market capitalizations. Investments in these companies typically involve a high degree of business and financial risk, including a greater degree of change in earnings and business prospects, lower trading volume and more volatility.
- The Master Fund may invest in companies for which governmental incentives or regulations enhance or support such companies' (or their suppliers' or customers') products and services, or suppress the companies' competitors. If these incentives and regulations change, these companies may fail. Pacific Grove may not anticipate these changes.
- Pacific Grove may communicate with the issuer of a portfolio position to influence the issuer's decisions or strategies. Pacific Grove's efforts may be ineffective or market reactions may not be what it anticipated or hoped.
- A representative of Pacific Grove may serve as a director of a portfolio company. Pacific Grove may be deemed to beneficially own more than 10% of the outstanding stock of a class or otherwise be an affiliate of a portfolio company. Pacific Grove might obtain material non-public information about a portfolio company. Any of the foregoing may prevent the Master Fund from buying or selling securities of such companies when doing so otherwise might benefit the Master Fund.
- The Master Fund may invest in companies involved in (or that are the target of) acquisition attempts or tender offers or in companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar circumstances. The contemplated transaction may be unsuccessful, take considerable time or result in a distribution of cash or a new security the value of which is less than the purchase price of the original security. If an anticipated transaction or reorganization does not occur, the Master Fund may be required to sell its investment at a loss.
- Investments in initial public offerings (or shortly thereafter) may involve higher risks than investments issued in secondary public offerings or purchases on a secondary market due to factors including the limited number of shares available for trading and the substantial price volatility for such securities.



- Some of the Master Fund's positions may be or become illiquid, in which case Pacific Grove may not be able to sell those positions.
- The Master Fund may invest in restricted securities that are subject to long holding periods or that are not traded in public markets. These securities are difficult or impossible to sell at prices comparable to the market prices of similar publicly-traded securities and may never become publicly traded.
- The Master Fund may invest in a relatively limited number of investments, so aggregate returns realized by the Master Fund may be substantially affected by the unfavorable performance of a small number of such investments and the Master Fund's ability to hedge its exposure and to dispose of depreciating assets may be reduced. The Master Fund does not have fixed guidelines for investment diversification. If the Master Fund's investments are concentrated in a particular industry, security, issuer or country, the Master Fund's portfolio will be more susceptible to fluctuations in value resulting from adverse economic conditions affecting that particular industry, security, issuer or country.
- Fund investors will also bear fees paid to the managers of exchange traded funds and money market funds in which the Master Fund may invest from time to time.

#### *Fund Structure Risk*

- Pacific Grove determines the value of securities and commodities held in the Master Fund's account, whether or not a public market exists for those instruments. If Pacific Grove's valuation is inaccurate, it might receive more compensation than that to which it is entitled, a new Fund investor might receive an interest that is worth less than the investor paid and an investor that is withdrawing or redeeming from a Fund might receive more than the amount to which the investor is entitled. As such, inaccurate valuations have the potential to harm new investors, existing investors, withdrawing/redeeming investors and the Funds.
- The Funds, and not Pacific Grove, are responsible for any trade errors that Pacific Grove makes in Fund accounts, even when the error hurts the Funds, unless it results from Pacific Grove's gross negligence, fraud or willful misconduct.
- Pacific Grove and its affiliates and agents generally are not responsible to any Fund investor for losses incurred in the Fund unless the conduct meets an exception to the specific limitation of liability provisions in the agreements that govern Pacific Grove's or its affiliates' relationship with that Fund.
- There is not and will not be an active market for Fund interests. It may be impossible to transfer any such interests, even in an emergency.
- The Master Fund may not be able to generate cash necessary to satisfy Fund investor withdrawals and redemptions. Substantial withdrawals and redemptions in a short period could force Pacific Grove to sell investments too rapidly, and may so reduce the size of the Master Fund that it cannot generate returns or reduce losses.

- A Fund may limit or suspend withdrawals or redemptions of an investor's assets from the Fund.
- A Fund may establish a reserve for contingencies if Pacific Grove considers it appropriate. Investors may not withdraw or redeem assets covered by that reserve until it is lifted.
- If the assets that Pacific Grove and its affiliates manage grow too large, it may adversely affect performance, because it is more difficult for Pacific Grove to find attractive investments as the amount of assets that it must invest increases.
- No Fund investor has been represented by separate counsel. The attorneys who represent Pacific Grove or its founder do not represent Fund investors. Investors must hire their own counsel for legal advice and representation.
- A Fund may dissolve or expel any investor at any time, even if such actions adversely affect one or more investors.
- Pacific Grove, an administrator or any government agency may freeze assets that any of them believes an investor holds in violation of anti-money laundering laws or rules or on behalf of a suspected terrorist, and may transfer such assets to a government agency. None of Pacific Grove, a Fund or an administrator will be liable for losses related to actions taken in an effort to comply with anti-money laundering regulations.
- The Funds do not intend to make distributions, but intend instead to reinvest substantially all income and gains. Therefore, an investor may have taxable income from a Fund without a cash distribution to pay the related taxes.
- If a Fund becomes insolvent, investors may be required to return with interest any distributions and forfeit any undistributed profits.
- Pacific Grove may provide certain investors more frequent or detailed reports, special compensation arrangements and withdrawal or redemption rights that it does not provide to other investors or clients.

### *General Risks*

- The Master Fund's success depends in large part on the skill, knowledge, judgment, experience and expertise of its portfolio manager, Jamie Mendola, to develop and implement investment strategies that achieve the Master Fund's investment objective. Mr. Mendola may not continue to be associated with the Funds. If Mr. Mendola ceases to devote sufficient time to managing the Master Fund, Fund investors may be adversely affected.
- Federal, state and international governments may increase regulation of investment advisers, private investment funds and derivative securities, which may increase the time

and resources that Pacific Grove must devote to regulatory compliance, to the detriment of investment activities.

- Pacific Grove is not registered with the SEC as a broker-dealer or with the Commodity Futures Trading Commission as a commodity pool operator or commodity trading adviser. The equity interests in the Funds are not registered under the Securities Act of 1933, and the Funds are not registered investment companies under the Investment Company Act of 1940. Pacific Grove believes that none of these registrations is required because exemptions are available under applicable law. If a regulatory authority deems that any of these registrations is required, Pacific Grove and the Funds could be subject to expensive and distracting legal action and potential termination. In addition, Fund investors do not have certain regulatory protection that they would have if these registrations were in place.
- Pacific Grove's activities could cause adverse tax consequences to investors, including liability for interest and penalties.
- Pacific Grove's activities may cause a Fund that is subject to the Employee Retirement Income Security Act of 1974 to engage in a prohibited transaction under that Act.
- Pacific Grove and its affiliates may spend time on activities that compete with the Master Fund or distract them from managing the Master Fund without accountability to Fund investors, including investing for other clients and their own accounts. If Pacific Grove receives better compensation and other benefits from these activities compared to managing the Master Fund, it has incentive to allocate more time to those other activities. These factors could influence Pacific Grove not to make investments on the Master Fund's behalf even if such investments would benefit the Master Fund, or otherwise reduce the time Pacific Grove or its affiliates spend managing the Master Fund.
- Pacific Grove depends heavily on information systems and technology. A disruption in the infrastructure that Pacific Grove or its service providers use may affect Pacific Grove's ability to continue to manage the Master Fund without interruption.
- Pacific Grove has no operating history on which prospective clients and investors may evaluate its performance.

The above is only a brief summary of some risks that a Fund investor may encounter. Before deciding to invest in a Fund, prospective investors should consider carefully all of the risk factors and other information in the Fund's offering circular or private offering memorandum.

#### **Item 9. Disciplinary Information**

This Item is not applicable, because Pacific Grove has no reportable disciplinary information.

#### **Item 10. Other Financial Industry Activities and Affiliations**

This Item is not applicable. Pacific Grove has no reportable other financial industry activities or affiliations.

## **Item 11. Code of Ethics, Participation or Interest In Client Transactions and Personal Trading**

Pacific Grove has adopted a Code of Ethics in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, that establishes standards of conduct for Pacific Grove's supervised persons. The Code of Ethics includes general requirements that Pacific Grove's supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. It requires supervised persons to comply with the personal trading restrictions described below and periodically to report their personal securities transactions and holdings to Pacific Grove's Compliance Officer, and requires the Compliance Officer to review those reports. It also requires supervised persons to report any violations of the Code of Ethics promptly to the Compliance Officer. Each supervised person of Pacific Grove receives a copy of the Code of Ethics and any amendments to it and must acknowledge in writing having received those materials. Annually, each supervised person must certify that he or she complied with the Code of Ethics during the preceding year. Clients and prospective clients may review Pacific Grove's Code of Ethics at Pacific Grove's offices by contacting Richard Van Doren at [info@pacificgrovecap.com](mailto:info@pacificgrovecap.com).

If Pacific Grove and its partners, officers and employees personally invest in the same securities that Pacific Grove trades for the Master Fund, there is a conflict of interest in that any of such persons can use his or her knowledge about actual or proposed securities transactions and recommendations for the Master Fund to profit personally by the market effect of such transactions and recommendations. To address this conflict, Pacific Grove and its partners, officers and employees must obtain pre-approval before engaging in most securities transactions (other than mutual funds and cash equivalents) and usually will not be permitted to trade for their own accounts except to liquidate existing positions.

Pacific Grove solicits investors who may or may not be Pacific Grove's clients to invest in its Funds. Pacific Grove has an incentive to cause a client to invest in a Fund instead of an individually managed account because of the reduced expenses and administrative burdens of managing a Fund compared to an individually managed account, Pacific Grove's performance compensation from a limited partnership receives more favorable tax treatment than that from an individually managed account and Fund investors have less transparency and liquidity than individual account clients. In addition, if a Fund investor also has an individually managed account with Pacific Grove that uses an investment strategy that is similar to that of the Fund, the investor may use knowledge of the other account's portfolio to decide if and when to make an additional investment or withdraw or redeem assets from the Fund at times when other Fund investors would have made similar decisions had they had similar transparency. Pacific Grove discloses these conflicts of interest to clients and investors.

Because Pacific Grove may manage more than one account, there may be conflicts of interest over its time devoted to managing any one account and allocating investment opportunities among all accounts that it manages. For example, Pacific Grove selects investments for each client based solely on investment considerations for that client. Different clients may have differing investment strategies and expected levels of trading. Pacific Grove may buy or sell a security for one type of client but not for another, or may buy (or sell) a security for one type of

client while simultaneously selling (or buying) the same security for another type of client. Pacific Grove may give advice to, and take action on behalf of, any of its clients that differs from the advice that it gives or the timing or nature of action that it takes on behalf of any other client. Pacific Grove is not obligated to acquire for any account any security or commodity that Pacific Grove or its partners, officers or employees may acquire for its or their own accounts or for any other client, if in Pacific Grove's absolute discretion, it is not practical or desirable to acquire a position in such security or commodity for that account.

## **Item 12. Brokerage Practices**

Pacific Grove has complete discretion in selecting the broker or FCM that it uses for client transactions and the commission rates that clients pay such brokers and FCMs.

Pacific Grove generally selects brokers and FCMs based on best execution and other factors or services paid for or provided by those brokers and FCMs that benefit Pacific Grove or its affiliates, the Master Fund or other client accounts, including, among other things:

- Research reports, services and conferences (including third party research fees);
- Economic and market information;
- Portfolio strategy advice;
- Industry and company comments;
- Technical data;
- Performance measuring data;
- On-line pricing;
- Special execution capabilities;
- Outsourced trading services;
- Block trading and block positioning capabilities;
- Willingness to execute related or unrelated difficult transactions in the future;
- Willingness to commit capital;
- Knowledge of market participants;
- Order of call;
- Offering to Pacific Grove on-line access to computerized data regarding client accounts;
- Clearance and settlement;
- Reputation, financial strength and stability;
- Confidentiality;
- Efficiency of execution and error resolution;
- Quotation services;
- Availability of stocks to borrow for short trades;
- Custody, recordkeeping and similar services;
- General business or operational consulting; and
- Other matters involved in the receipt of brokerage services generally.

Pacific Grove also may purchase from a broker or FCM, or allow a broker or FCM to pay for, all or a portion of operating costs and expenses of Pacific Grove, the Master Fund or their affiliates, such as:

- Computer hardware and software (including, investment, operations, portfolio and trading-related software, including trade order management software);
- Newswire charges;
- Proxy voting services;
- Portfolio management and risk management services;
- Consulting, investment banking and other professional fees relating to particular investments or contemplated investments;
- Quotation services and equipment;
- Periodical subscription fees;
- Third party research fees;
- Costs and expenses of selling Fund interests and communicating with current and prospective investors;
- Registration fees to attend research conferences; and
- Accounting, administrative and legal fees.

Pacific Grove may receive soft dollar credits based on principal, as well as agency, securities and commodities transactions with brokers and FCMs or direct a broker or FCM that executes transactions to share some of its commissions with a broker or FCM that provides soft dollar benefits to Pacific Grove.

Pacific Grove may allocate the costs of certain computer equipment and software used for both research and brokerage (on the one hand) and non-research and non-brokerage (on the other hand) between their research/brokerage uses and non-research/brokerage uses, and use soft dollars to pay only for the portion that Pacific Grove allocates to research uses.

Pacific Grove has retained Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated and UBS Securities LLC (and their affiliates) to serve as the Funds' prime brokers and custodians. Pacific Grove may replace any such firm or appoint an additional prime broker and custodian at any time. The services that these firms currently provide as prime brokers and custodians may include custody, margin financing, clearing, settlement and stock borrowing in accordance with the terms of the prime brokerage and custody agreements entered into between the Master Fund and each of these firms. Goldman, Sachs & Co.'s address is 200 West Street, New York, New York, 10282. Morgan Stanley & Co. Incorporated's address is 1221 Avenue of the Americas, New York, New York 10020. UBS Securities LLC's address is 51 West 52nd Street, New York, New York 10019. These firms have custody of most of the Funds' assets and provide Pacific Grove with other services. These services may include: technology services (such as internet access, IT support, Bloomberg connections, wireless networking, email archiving and disaster recovery systems), portfolio reporting and access to electronic communications networks. These firms also may, at their discretion, provide capital introduction services. Pacific Grove expects to use a substantial portion of these services for research and trading on behalf of the Funds, but some may be used for administrative purposes, which would not be within the safe harbor of section 28(e). Although many prime brokers and custodians provide similar services to investment advisers in exchange for brokerage, custody and clearance fees and other charges, if Pacific Grove did not receive these services from these firms, Pacific Grove would be required to pay for all or some portion of them. Pacific Grove is not required to direct a particular number

of trades to any of these firms or to continue to use them as the Funds' prime brokers and custodians, but it has an incentive to do so based on their prior and continued services.

Each Fund's obligations to those custodians and their affiliates will be secured by a first priority perfected security interest over all of the Fund's assets held in custody by them and their affiliates. A custodian may transfer to itself all rights, title and interest in and to those assets as collateral and may deal with, lend, dispose of, pledge or otherwise use all such collateral for its own purposes. If any such transfer occurs, the Fund will rank as such custodian's (or affiliate's) unsecured creditor. If such custodian or affiliate becomes insolvent, the Fund may not be able to recover such equivalent securities in full. In addition, the Fund's cash held by a custodian may not be segregated from such custodian's own cash and, if not so segregated, may be used by such custodian or affiliate in the course of its business and the Fund will therefore rank as an unsecured creditor in relation thereto.

If any of a Fund's investments are registered in the name of a custodian or its affiliate due to the nature of the law or market practice of a particular jurisdiction, such investments will not be segregated from the custodian's or affiliate's own investments and if such custodian or affiliate becomes insolvent, the Fund may not be able to recover such equivalent investments in full.

Pacific Grove may select a broker to act as a "trading broker" for a client. In such cases, Pacific Grove or the trading broker may select the executing broker, and the trading broker would then place or manage the order. The trading broker is compensated (through commissions or otherwise) for this trading service in addition to the commissions paid to the executing brokers. As with all soft dollar arrangements, using a trading broker in this manner causes the client to pay brokerage commissions, mark-ups and other transactions fees that are higher than might otherwise be paid if brokers were selected solely based on lowest execution cost. In addition, using a trading broker (rather than an employee of Pacific Grove) to provide those services may allow Pacific Grove to reduce its own personnel expenses.

Section 28(e) of the Securities Exchange Act of 1934 provides a "safe harbor" to investment advisers who use commission dollars of their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the adviser in performing investment decision-making responsibilities. Conduct outside of the safe harbor of section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. If Pacific Grove uses commission dollars to pay for products or services that provide administrative or other nonresearch assistance to itself or its affiliates, such payments may not fall within the section 28(e) safe harbor.

Pacific Grove may pay to a broker or FCM commissions and mark-ups that exceed those that another broker or FCM might charge for effecting the same transaction because of the value of the brokerage, research, other services and soft dollar relationships that such broker or FCM provides. Pacific Grove determines in good faith that such compensation is reasonable in relation to the value of such brokerage, research, other services and soft dollar relationships, in terms of either the specific transaction or Pacific Grove's overall fiduciary duty to its clients. A Fund may, however, pay higher commissions and mark-ups than are otherwise available or may pay more commissions or mark-ups based on account trading activity. The research and other benefits resulting from Pacific Grove's brokerage relationships benefit Pacific Grove's

operations as a whole and the Funds, including those that do not generate the soft dollars that pay for such research. Pacific Grove does not allocate soft dollar benefits to the Funds proportionately to the soft dollar credits that the Funds generate.

Pacific Grove's relationships with brokers and FCMs that provide soft dollar services influence Pacific Grove's judgment and create conflicts of interest in allocating brokerage business between firms that provide soft dollar services and firms that do not, and in allocating the costs of mixed-use products between their research and non-research uses. Pacific Grove has an incentive to select or recommend a broker or FCM based on Pacific Grove's interest in receiving soft dollar services rather than clients' interest in receiving the most favorable execution. These conflicts of interest are particularly influential to the extent that Pacific Grove uses soft dollars to pay expenses it would otherwise be required to pay itself.

Pacific Grove addresses these conflicts of interest by evaluating on a regular basis the trade execution services that Pacific Grove receives from the brokers and FCMs that it uses to execute trades for clients. Such evaluation includes comparing those services to the services available from other brokers and FCMs. Pacific Grove considers, among other things, alternative market makers and market centers, the quality of execution services, the value of continuing with various soft dollar services and adding or removing brokers or FCMs, increasing or decreasing targets for each broker or FCM and the appropriate level of commission rates.

Pacific Grove may aggregate securities sale and purchase orders for a client with similar orders being made contemporaneously for other accounts that Pacific Grove manages or with accounts of its affiliates. In such event, Pacific Grove may charge or credit a client, the average transaction price of all securities purchased or sold in such transactions. As a result, however, the price may be less favorable to the client than it would be if Pacific Grove were not executing similar transactions concurrently for other accounts. Pacific Grove may also cause a client to buy or sell securities directly from or to another client, if such a cross-transaction is in the interests of both clients.

Pacific Grove may direct a certain amount of brokerage to a broker or FCM in return for the broker's or FCM's referral of prospective clients or investors. Directing brokerage to a broker in exchange for client or investor referrals creates a conflict of interest in that Pacific Grove has an incentive to refer its clients' brokerage business to brokers to which it might not otherwise direct transactions. Pacific Grove has policies and procedures to review its brokerage practices regularly, including its use of brokers from which Pacific Grove receives client or investor introductions.

### **Item 13. Review of Accounts**

Pacific Grove's founder, Jamie Mendola, generally reviews accounts on a regular basis. Those reviews may include such matters as asset allocation, cash management, the prospects of individual securities, changes in issuer earnings, industry outlook, market outlook and price levels. Each Fund investor receives a written annual report containing the Fund's audited financial statements. Fund investors may receive additional written exposure and performance attribution reporting on a periodic basis. Pacific Grove may also provide more frequent or detailed portfolio information or analysis on request, on a case-by-case basis, subject to



additional contractual confidentiality protections and use restrictions. Pacific Grove also furnishes to Fund investors appropriate tax information each year.

**Item 14. Client Referrals and Other Compensation**

Pacific Grove may engage solicitors to whom it pays cash or a portion of the advisory fees paid by clients referred to it by those solicitors. In such cases, this practice is disclosed in writing to the client and Pacific Grove complies with the other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, to the extent required by applicable law.

**Item 15. Custody**

Not applicable.

**Item 16. Investment Discretion**

Pacific Grove has discretionary authority to manage investment accounts on behalf of the Funds pursuant to a grant of authority in each Fund's limited partnership agreement or a limited power of attorney in its investment adviser agreement. Fund investors generally may not place any limits on Pacific Grove's authority beyond those set forth in the Funds' offering and governing documents.

**Item 17. Voting Client Securities**

Pacific Grove decides whether to vote proxies on behalf of each account over which Pacific Grove has proxy voting authority after considering whether the proposal will have a material effect on the account's investment strategy. This analysis frequently leads Pacific Grove to not vote proxies. In determining whether a proposal serves an account's best interests, Pacific Grove considers a number of factors, including:

- the proposal's economic effect on shareholder value;
- the threat that the proposal poses to existing rights of shareholders;
- the dilution of existing shares that would result from the proposal;
- the effect of the proposal on management or director accountability to shareholders; and
- if the proposal is a shareholder initiative, whether it wastes time and resources of the company or reflects the grievance of one individual.

Pacific Grove abstains from voting proxies when Pacific Grove believes that it is appropriate to do so.

If a material conflict of interest over proxy voting arises between Pacific Grove and a client, Pacific Grove will vote all proxies in accordance with the policy described above. If Pacific Grove determines that this policy does not adequately address the conflict of interest, it will notify the client of the conflict and request that the client consent to Pacific Grove's intended response to the proxy solicitation. If the client consents to Pacific Grove's intended response or fails to respond to the notice within a reasonable time specified in the notice, Pacific Grove will vote the proxy as described in the notice. If the client objects in writing to Pacific Grove's intended response, it will vote the proxy as the client directs.

A client may obtain a copy of Pacific Grove's proxy voting policy and a record of votes cast by it on behalf of that client by contacting Pacific Grove.

**Item 18. Financial Information**

This Item is not applicable, because Pacific Grove is not required to report financial information.

**Item 19. Requirements for State-Registered Advisers**

All of the information required by this Item is disclosed in Pacific Grove's Form ADV, Part 2B.

**Privacy Policy**

Pacific Grove and the Funds:

- collect non-public personal information about their clients and investors from the following sources:
  - information received from clients or investors on applications or other forms, and
  - information about clients' or investors' transactions with Pacific Grove, its affiliates or others;
- do not disclose any non-public personal information about their clients or investors or former clients or investors to anyone, except as permitted by law;
- restrict access to non-public personal information about their clients and investors to their employees who need to know that information to provide services to clients; and
- maintain physical, electronic and procedural safeguards that comply with federal standards to guard clients' and investors' personal information.